



United States Senator
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REPORTS TO ALABAMA



WHY WE NEED BANKRUPTCY REFORM

How can we hope to raise our children to be upstanding members of the community, to work hard and pay their bills if we as a nation continue to discourage personal responsibility? We can't.

This dilemma is affecting our society in more ways than one can count with only glimmers of hope for change. It's not that every American depends on someone else for assistance, but rather, many of the programs our government has established to help individuals in need, do more to discourage personal responsibility than to help that person regain their footing through hard work and personal sacrifice.

Our nation's bankruptcy laws—laws originally designed to provide a fresh start to people in the most serious of financial trouble—are a perfect example. What were once used as a method of last resort has become a financial planning tool for those who elect to walk away from their debts rather than take responsibility for them.

Despite a stable economy and low unemployment rates in the United States, personal bankruptcy petitions have increased to a record 1.3 million filings, up almost 20 percent from the previous year. While the majority of personal bankruptcy filers chose Chapter 7, which offers complete debt relief regardless

of whether the individual has the ability to pay some or eventually all of the debt, the average hard-working American who pays his/her bills is left to pay that debt—an average of about \$400 for each and every American family. These debtors are not necessarily people who are experiencing dire economic hardships. In fact, studies show that one in four Chapter 7 filers has enough income to repay at least one-third of what is owed. And, one in 20 filers has the ability to repay all of their debts—but receives complete relief anyway.¹

As I travel around Alabama holding open, public meetings in each of our state's 67 counties, I often hear complaints about how the bankruptcy system affects innocent individuals who witness the abuse first-hand. Take for example this fictitious, but representative case: your neighbor declared Chapter 7, but continues to drive his brand new Mercedes-Benz and live in a nice home while continuing to draw a steady salary. Let's say for the sake of argument that he and his wife had a tendency to take full advantage of the shopping channel and ran up the couples credit card bills. Like a growing number of Americans, this fictional couple chose to overlook their debt, and instead passed it on to you. That's what happens. Businesses that have un-

collectible credit card debt are forced to make up that loss somewhere. Guess what? You, the dutiful, bill-paying taxpayer will ultimately carry that loss. Such losses affect your interest rates, not to mention the costs you pay for goods and services. In the case of small businesses, such debt is more difficult to recoup and may force the business to close its doors.

Currently, Congress is debating legislation that would change the bankruptcy system from a system of expediency to a system based on need. Essentially, the proposed legislation would take into account the amount of debt a person filing for bankruptcy has to repay each month or pay period.

No one is disputing the need for a safety net to provide assistance and relief to those who are facing complete financial ruin and destitution; however, we must find a way to strike a balance. What we must all realize is that someone pays the tab for those who refuse to take responsibility for their actions, financial or otherwise. Someone will be left to pay the tab.

While the bankruptcy reform before us this Congress is not perfect, it is a step in the right direction. Most importantly, this debate is helping to shine the light on a practice of abuse that must end, but will only end when we change the system from one of expediency to one of true need.

¹ National Retail Federation (1998, February 5).